



WHAT ARE THE ADVANTAGES TO USING A SCIN?

In addition to the benefits outlined under the traditional installment sale discussion, the SCIN offers the following additional benefits:

Potentially greater estate tax savings.

Unlike a traditional installment sale, with a SCIN, the remaining principal balance would not be included in your estate at your death because, by the terms of the promissory note, it cancels at your death. The estate tax savings can be substantial if the seller dies materially prior to her life expectancy. The private annuity, also shares this benefit.

Lower interest rate.

Although the issue is not settled, most estate planners agree that the applicable base interest rate (excluding a risk premium component) to use for the promissory note is the AFR in effect for the month of sale. However, a conservative approach would be to use the higher section 7520 rate, which is 120% of the mid-term AFR for the month in which the sale occurs.

Backloading of payments.

If you use an interest-only SCIN that defers the payment of principal, at least initially, the purchasing trust would have a greater opportunity to convert its illiquid interest into liquid assets (i.e., cash or marketable securities), which would leverage the proceeds, allowing you to more easily shift value to younger generations. More importantly, a SCIN offers a major advantage if you were to die prior to the end of the term because of the possibility for a sizeable principal balance payment never being made back to you or your estate. As previously explained, the estate tax savings could be substantial.